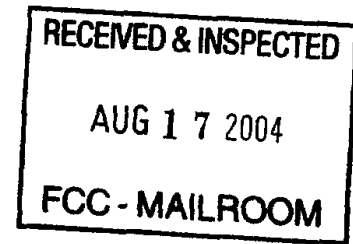
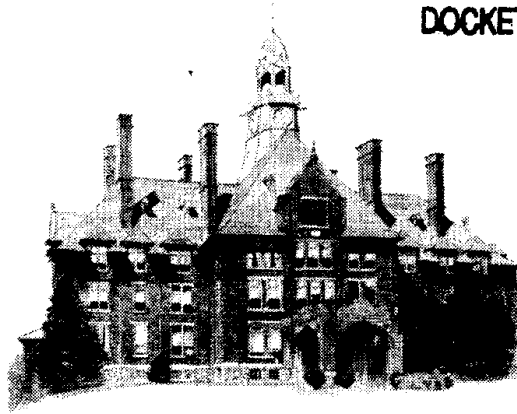


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GLEN MILLS SCHOOLS
Service to youth since 1826

C.D. Ferrainola
Executive Director

Letter of Appeal-Request for Review

Federal Communications Commission

Office of the Secretary

445 – 12th Street SW

Washington, DC 20554

August 9, 2004

CC Docket No. 02-6

Form 471 Application Number: 312227

Funding Year 2002: 07/01/2002-06/30/2003

Billed Entity Number: 20744

Funding Request Number(s): 816193, 816238, 816288, 816337

Applicant's Form Identifier: ATTVer

Dear Sir or Madam,

I am writing to appeal the USAC Schools & Libraries Division -Administrator's
Decision on Appeal, dated July 14, 2004. (See attached).

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The SLD letter states that “it was determined that the funding requests were denied properly for failure to demonstrate that when you filed your Form 471 you had secured access to the funds needed to pay your portion of the charges.” We respectfully disagree with this decision and ask the Commission to overturn the denial.

Although we will present evidence later in this appeal, we first must address the real reason why we believe this application was denied. One of the service providers listed on our 471 (Expanets) apparently is under investigation by the SLD. While this may be the case, it is important for the Commission to realize that Expanets provided a service to the Glen Mills, at a competitive price. Although they may have been engaged in wrongdoing with other entities, this was not the case with our school. Normally in cases where a denial is given because of the “not being able to pay your portion of the charges” reason, it is because the school has applied for services for which they simply cannot afford. This is not the case at our school, as we tried to demonstrate to the SLD, and that we will attempt to show the Commission. We believe it is wholly unfair for the Program Administrator, instead of investigating the FRNs associated with a particular vendor, to make a pre-determination of funding denial simply because a questionable vendor is listed on the applicant’s Form 471. We have no reason but to believe that we were targeted for denial and the Administrator tried desperately to find a reason. If Expanets is indeed under investigation, then only that FRN should have been denied without tainting the remaining FRN’s for phone service which were included on the application.

We understand the SLD is under great pressure to eliminate waste, fraud and abuse in the E-rate program, and we generally commend you for your efforts. Unfortunately you have targeted a school that is wholly above board, and has worked in

earnest to file E-rate applications according to both the spirit and letter of the E-rate rules.

When you stop and consider what this denial is saying, we think you'll agree at its absurdity. Essentially it's saying that we don't have enough money to pay our phone bills. This is ludicrous.

We are not a fly-by-night, newly opened school, or a school that has blindly turned over their E-rate application process to a consultant. Glen Mills School is a private, residential school for court adjudicated male delinquents between 15 and 18 years of age. Founded in 1826 as the Philadelphia House of Refuge, the Schools has provided services continuously for 172 years and is the oldest existing school of its type in the United States. The school is an internationally known and respected program providing services to more than nine hundred students.

FACTS

The Form 471 in question was filed electronically on 1/15/2002. The Supplemental Schedule of Revenues and the Supplemental Schedule of Functional Expenses, prepared by independent auditors Deloitte & Touche, that we submitted to the SLD was for the Year ending June 30, 2002 (which was the exact time period that we filed the Form 471). This document clearly shows that we had sufficient funding to pay for our portion of charges at the time we filed our Form 471.

The 2002-2003 Supplemental Schedule of Revenues and the Supplemental Schedule of Functional Expenses was not submitted to Glen Mills until December 12, 2003 (well after we filed our Form 471). However, we had already been denied funding for telephone services even though we had clearly demonstrated that "at the time we submitted our Form 471 application we had secured access to funds" necessary to pay our

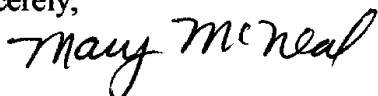
portion of discounted charges for eligible services. Please find enclosed a copy of the Glen Mills Schools Financial Statements for the Year Ended June 30, 2003.

DISCUSSION

The Glen Mills School has paid its telephone bills for all the years prior to the E-Rate and will continue to pay it's telephone bills after the E-Rate program has ended. We provided every piece of documentation requested and actually inquired as to what else we could provide to help support our applications. All other applications from Year 5, which were under the same Selective Review process, were funded with no questions as to our ability to pay. And of course, we have since paid our portion of all charges. Furthermore, we have been funded for Year 6 and 7 phone service (as well as Years 1, 2, 3, and 4) yet denied for Year 5, which confirms the fact that the stated reason for denial is unreasonable.

We respectfully urge you to reconsider our funding commitments. Thank you for your consideration in this matter.

Sincerely,



Mary McNeal
Education Technology Coordinator
P.O Box 5001
Concordville, PA 19331
610-459-8100 Ext. 281
FAX 610-459-7809
mmcneal@glenmillschools.org



Universal Service Administrative Company
Schools & Libraries Division

Administrator's Decision on Appeal - Funding Year 2002-2003

July 14, 2004

Mary McNeal
Glen Mills Schools
P.O. Box 5001
Concordville, PA 19331

Re: Billed Entity Number: 20744
 471 Application Number: 312227
 Funding Request Number(s): 816193, 816238, 816288, 816337
 Your Correspondence Dated: November 4, 2003

After thorough review and investigation of all relevant facts, the Schools and Libraries Division ("SLD") of the Universal Service Administrative Company ("USAC") has made its decision in regard to your appeal of SLD's Year 2002 Funding Commitment Decision for the Application Number indicated above. This letter explains the basis of SLD's decision. The date of this letter begins the 60-day time period for appealing this decision to the Federal Communications Commission ("FCC"). If your letter of appeal included more than one Application Number, please note that for each application for which an appeal is submitted, a separate letter is sent.

Funding Request Number(s): 816193, 816238, 816288, 816337

Decision on Appeal: **Denied in full**

Explanation:

- Your appeal letter states that the school had submitted ample documentation during the course of the review that shows you had funding to pay for your portion of the charges. As part of the appeal letter, you provide a chronological list of events that occurred during the review process. On 2/19/03, you mailed the school's Chart of Accounts/Budget. Then, on 2/27/03, you faxed a copy of the school's Financial Statement in response to the request to submit an operating budget for 2002-2003 showing both revenues and expenses indicating where your portion of E-rate is coming from. An email was sent on 3/4/03 asking the reviewer if he received all the information that was needed and if there was a status. On 6/16/03, you sent a fax and email to the reviewer stating that you sent the Financial statement and asked if there was any other information that was not covered by the Financial statement. Then on 6/19/03, you faxed the Supplemental Schedule of Revenues along with an audited Supplemental Schedule of Functional Expenses by Deloitte & Touche (independent

auditors) per the reviewer's instruction. You state that the reviewer indicated that this documentation would meet the requirements he was looking for. You then mailed, on 7/7/03, the Supplemental Schedule of Revenues along with the Supplemental Schedule of Functional Expenses, prepared by Deloitte & Touche. Your appeal letter concludes with a statement that the denial of funding is without merit because the school has always paid its telephone bills and had provided every piece of documentation required for the review. You have asked that the funding commitments be reconsidered.

- Upon thorough review of the appeal and its relevant facts, it was determined that the funding requests were denied properly for failure to demonstrate that when you filed your Form 471 you had secured access to the funds needed to pay your portion of the charges. This Billed Entity Number (BEN) underwent an Item 25/ Competitive Bid review. During the review, you were asked to provide contracts, bids, RFP, vendor selection, consulting agreements and budget information. As part of your initial response, a Financial Statement ending 6/30/02 was submitted but had nothing marked on it. Next, the reviewer sent a follow up fax asking you to submit a final budget for 2002-2003 showing both revenues and expenses indicating where your portion of E-rate is coming from. The reviewer requested the budget information for 2002-3003 on three separate occasions. Each time, you sent in a response that was not acceptable. The last response received was a Supplemental Schedule of Revenues for Year ended June 30, 2002. You did not provide the necessary budget information and have not demonstrated that you have the funds secured to pay for your share of E-rate. Your responses were budgetary information for the year ending 6/30/02. Consequently, the appeal is denied.
- FCC rules require applicants to certify on each FCC Form 471 submitted that they have secured access to all of the resources, including computers, training, software, maintenance, and electrical connections necessary to make effective use of the services purchased as well as to pay the discounted charges for eligible services. See Schools and Libraries Universal Service, Services Ordered and Certification Form 471, Block 6, Item 25, OMB 3060-0806, October 2000. This requires you to pay your service provider the full cost of the non-discounted portion you owe to your service provider from the funds you budgeted within that funding year.
- FCC rules require applicants to certify that, at the time they submit the FCC Form 471, they have secured access to all of the resources, including computers, training, software, maintenance, and electrical connections necessary to make effective use of the services purchased as well as to pay the discounted charges for eligible services. 47 C.F.R. sec. 54.504(b); FCC Form 471, item 25. SLD reviews this certification by conducting an item 25 "necessary resources" review. The FCC has emphasized the importance of conducting this review to protect the integrity of the program. In re New Orleans Public Schools; CC Docket Nos. 96-45, 96-21; DA 01-2097 (rel. Sep.18, 2001).

- SLD's review of your application indicated that the information you provided during the item 25 review was not sufficient to demonstrate that, at the time you submitted your Form 471 application, you had secured access to these funds. In your appeal, you did not demonstrate that at the time you submitted your Form 471 application, you had secured access to these funds. Consequently, SLD denies your appeal.

If you believe there is a basis for further examination of your application, you may file an appeal with the Federal Communications Commission (FCC). You should refer to CC Docket No. 02-6 on the first page of your appeal to the FCC. Your appeal must be received or postmarked within 60 days of the above date on this letter. Failure to meet this requirement will result in automatic dismissal of your appeal. If you are submitting your appeal via United States Postal Service, send to: FCC, Office of the Secretary, 445 12th Street SW, Washington, DC 20554. Further information and options for filing an appeal directly with the FCC can be found in the "Appeals Procedure" posted in the Reference Area of the SLD web site or by contacting the Client Service Bureau. We strongly recommend that you use the electronic filing options.

We thank you for your continued support, patience, and cooperation during the appeal process.

Schools and Libraries Division
Universal Service Administrative Company

The Glen Mills Schools

***Financial Statements for the Year Ended June 30,
2003, Supplemental Schedule of Expenditures of
Federal Awards for the Year Ended June 30, 2003
and Independent Auditors' Reports Required by
Office of Management and Budget Circular A-133***

THE GLEN MILLS SCHOOLS

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**Deloitte
& Touche**

INDEPENDENT AUDITORS' REPORT

To the Board of Managers of
The Glen Mills Schools
Concordville, PA

We have audited the accompanying statement of financial position of the Glen Mills Schools (the "Schools") as of June 30, 2003, and the related statements of activities and of cash flows for the year then ended. These financial statements are the responsibility of the management of the Schools. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Glen Mills Schools at June 30, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2003 on our consideration of the Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte + Touche LLP

December 12, 2003

THE GLEN MILLS SCHOOLS

STATEMENT OF FINANCIAL POSITION JUNE 30, 2003

ASSETS

Cash	\$ 2,666,969
Cash equivalents	2,565,204
Short-term investments	4,565,740
Inventory	720,572
Receivables:	
Charges—states, counties and other agencies	8,069,650
Prepaid expenses and other current assets	128,371
Total current assets	<u>18,716,506</u>
Investment in property:	
Land	207,000
Construction in progress	1,381,695
Buildings and building improvements	49,712,791
Improvements other than buildings	9,592,077
Machinery and equipment	18,684,803
Total	79,578,366
Accumulated depreciation	<u>(32,275,025)</u>
Property—net	<u>47,303,341</u>
Investments held for long-term purposes—unrestricted	26,721,614
Investments held for long-term purposes—restricted	1,466,608
Prepaid pension costs	1,743,895
TOTAL ASSETS	<u>\$ 95,951,964</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 1,190,156
Accrued expenses	3,137,230
Deferred income—current	161,819
Total current liabilities	<u>4,489,205</u>
Deferred income—long-term	161,816
Total liabilities	<u>4,651,021</u>
Net assets:	
Unrestricted—designated for tuition assistance and reduction plans	6,059,349
Unrestricted—designated for renewals and replacement/investment in plant	19,616,172
Unrestricted—designated for employee benefits	2,702,378
Unrestricted—investment in property	47,303,341
Unrestricted—other	14,153,095
Total unrestricted net assets	<u>89,834,335</u>
Temporarily restricted—contributions and accumulated endowment gains	1,400,484
Permanently restricted—endowment principal	66,124
Total restricted net assets	<u>1,466,608</u>
Total net assets	<u>91,300,943</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 95,951,964</u>

See notes to financial statements.

THE GLEN MILLS SCHOOLS

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Per capita charges for the care and education of students and the maintenance of The Glen Mills Schools	\$ 31,708,825	\$ -	\$ -	\$ 31,708,825
State educational subsidy	5,080,718			5,080,718
Government grants	1,691,292			1,691,292
E-rate program funding	457,447			457,447
Program revenue	2,202,873			2,202,873
Other revenues	31,047			31,047
Interest and dividends from investments	1,401,157	35,991		1,437,148
Net realized and unrealized gain on investments	564,573	11,202		575,775
Total revenues, gains and other support	<u>43,137,932</u>	<u>47,193</u>	<u>-</u>	<u>43,185,125</u>
EXPENSES:				
Program services:				
Admissions	4,251,506			4,251,506
Academic, group living, golf course and vocational programs	21,877,573			21,877,573
Program support services	13,756,544			13,756,544
Student placement	662,650			662,650
Supporting activities:				
Administration	619,334			619,334
General	288,119			288,119
Total expenses	<u>41,455,726</u>	<u>-</u>	<u>-</u>	<u>41,455,726</u>
CHANGE IN NET ASSETS	1,682,206	47,193		1,729,399
NET ASSETS, BEGINNING OF YEAR	<u>88,152,129</u>	<u>1,353,291</u>	<u>66,124</u>	<u>89,571,544</u>
NET ASSETS, END OF YEAR	<u>\$ 89,834,335</u>	<u>\$ 1,400,484</u>	<u>\$ 66,124</u>	<u>\$ 91,300,943</u>

See notes to financial statements.

THE GLEN MILLS SCHOOLS

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2003

OPERATING ACTIVITIES:

Changes in net assets	\$ 1,729,399
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation	2,853,910
Net realized and unrealized gain on sale of investments	(575,775)
Changes in assets and liabilities which provided (used) cash:	
Inventory	7,478
Charges receivable	383,900
Interest and dividends receivable	56,010
Prepaid expenses and other current assets	(27,938)
Accounts payable	162,914
Prepaid pension cost	(874,827)
Accrued expenses	210,992
Deferred income	(161,809)
Net cash provided by operating activities	<u>3,764,254</u>

INVESTING ACTIVITIES:

Purchases of investments	(19,350,978)
Sales of investments	21,611,902
Purchases of property	(3,560,063)
Net cash used in investing activities	<u>(1,299,139)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS	2,465,115
CASH AND CASH EQUIVALENTS—Beginning of year	<u>2,767,058</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 5,232,173</u>

See notes to financial statements.

THE GLEN MILLS SCHOOLS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2003

1. ORGANIZATION

The Glen Mills Schools (the "Schools") was founded in 1826 as a residential school for court referred young men and is the oldest such school in the country. The Schools contracts with various state and county agencies to serve as a residential facility for delinquent young men between the ages of 14-18. The Schools has been approved by the Internal Revenue Service as an organization that is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, there is no income tax applicable to its exempt activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) **Basis of Accounting**—The financial statements are presented on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred.
- (b) **Contributions**—The Schools reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Schools reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Schools reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

During 1999 the Schools enrolled in the Federal Communication Commission's "E-Rate" program. The program allows eligible schools and libraries to have affordable access to modern telecommunications and information services. During 2003, the Schools recorded "in-kind" contribution revenue of \$457,447 from this program.

- (c) **Property and Depreciation**—The Schools' investment in property acquired prior to July 1, 1979 is carried at actual or estimated cost as determined by an outside appraisal firm; additions subsequent to that date are carried at cost. Depreciation is computed using the straight-line method over estimated service lives of the property, as follows:

Buildings	35 - 50 years
Equipment	2 - 20 years
Land improvements	35 years
Vehicles	5 years

- (d) **Cash and Cash Equivalents**—Cash and cash equivalents represents cash in banks, treasury bills, commercial paper and money market funds held in operating investment portfolios.
- (e) **Investments**—Investments are defined based on the primary purpose of the investment portfolio that holds the investment and not the specific maturity of the asset. Accordingly, there are assets with original maturities of less than 90 days included in long-term investment portfolios if donors or board designation restrict spending of such assets (trust fund, depreciation reserve, capital improvements, employee medical benefit and tuition reduction).

Investments are carried at quoted market value. Unrealized appreciation (depreciation) in the carrying value of investments is determined annually. Realized gains or losses on security transactions are determined at the date of sale (trade date) using the average cost of securities sold. Realized and unrealized gains and losses are reflected in the statement of activities.

Dividends on stocks are recorded on the ex-dividend date. Interest on bonds and notes, etc., is recorded as income when earned.

- (f) **Use of Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- (g) **Impairment of Long-Lived Assets**—In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (“SFAS No. 144”). SFAS No. 144 addresses the accounting and reporting for the impairment or disposal of long-lived assets. The statement provides a single accounting model for long-lived assets to be disposed of. New criteria must be met to classify the asset as an asset held-for-sale. This statement also focuses on reporting the effects of a disposal of a segment of business. This statement is effective for fiscal years beginning after December 15, 2001. The School adopted SFAS No. 144 as of June 30, 2003, and the adoption did not have a material impact on the Schools’ financial position or results of operations. No impairment adjustments were considered necessary during the year ended June 30, 2003.
- (h) **Recent Accounting Pronouncements**—In November 2002, the FASB issued Financial Interpretation No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (“FIN No. 45”). FIN No. 45 identifies characteristics of certain guarantee contracts and requires that a liability be recognized at fair value at the inception of such guarantees for the obligations undertaken by the guarantor. Additional disclosures are also required for certain guarantee contracts. The initial recognition and initial measurement provisions of FIN No. 45 are effective for the financial statements of interim or annual periods ending after December 15, 2002. The disclosure requirements of FIN No. 45 are effective for the School for its year ended June 30, 2003. The Schools adopted FIN No. 45 in during 2003. There was no impact on the Schools’ financial position or results of operations as a result of the adoption of FIN No. 45.

3. RELEASE OF RESTRICTIONS

As permitted by SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*, donor-restricted gifts which are received and either spent or deemed spent within the same year are reported as unrestricted revenue. Gifts of long-lived assets are reported as unrestricted revenue. Gifts specified for the acquisition or construction of long-lived assets are reported as unrestricted net assets when the assets are placed in service.

4. CASH EQUIVALENTS AND INVESTMENTS

All cash equivalents and investments are held in one of eight investment accounts. The cost and market values of the various accounts as of June 30, 2003 are reflected below:

	Cost	Market
Capital improvements	\$ 1,782,270	\$ 1,826,068
Current education	148,136	151,224
Tuition reduction	3,406,031	3,535,816
Tuition assistance	2,395,963	2,523,533
Employee medical benefits	2,645,563	2,702,378
Trust fund	11,227,554	10,156,625
Salary and contingency fund	99,156	99,156
Depreciation reserve	13,704,760	14,324,366
Total	<u>\$ 35,409,434</u>	<u>\$ 35,319,166</u>

The aggregate carrying amounts of cash equivalents and investments held at June 30, 2003 by major types are as follows:

Cash equivalents—money market funds	\$ 2,565,204
Short-term investments—U.S. Treasury securities	4,565,740
Investments held for long-term purposes:	
U.S. Treasury Notes	5,227,697
Other Gov't Agency (FHLB, FNMA) Bonds/Notes	4,248,234
Corporate Bonds/Notes	4,701,658
Mutual funds	10,156,625
Other	3,854,008
Total investments held for long-term purposes	<u>28,188,222</u>
Total cash equivalents and investments	<u>\$ 35,319,166</u>

5. NET ASSETS

Permanently restricted net assets result from contributions and other inflows of assets for which the use by the Schools is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Schools.

These net assets represent endowment funds with respect to which donors have stipulated, as a condition of the gift that the principal is to be maintained as prescribed by the donor and invested. Income earned on such funds is temporarily restricted as to use unless stipulated by the donor.

Permanently restricted net assets are restricted in perpetuity to support the purposes summarized below:

Maintenance of the chapel	\$ 10,000
Student scholarships	38,650
Entertainment and gifts for students	13,474
Other	<u>4,000</u>
	<u>\$ 66,124</u>

Temporarily restricted net assets result from contributions and other inflows of assets whose use by the Schools is limited by donor-imposed stipulations that expire by passage of time or can be fulfilled and removed by actions of the Schools pursuant to those stipulations.

Temporarily restricted net assets as of June 30, 2003, in the amount of \$1,400,484 consist of accumulated gains on endowments and contributions for student scholarships.

Unrestricted net assets are available for the Schools' operations. Any income earned on these funds is recorded as an increase to unrestricted net assets.

6. RETIREMENT PLANS

The Schools has a non-contributory defined benefit pension plan, covering substantially all of its employees. The benefits are based on years of service and the employee's average compensation during the five consecutive calendar years in which the average was highest during the final ten years of service. The Schools' funding policy is to contribute annually an amount that both satisfies the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and does not exceed the full funding limitations of the Internal Revenue Code.

The table presented below sets forth the plan's funded status and amounts recognized in the Schools' statement of financial position at June 30, 2003. Plan assets are comprised principally of corporate equity securities, U.S. Treasury obligations and certificates of deposit, which are measured at fair value (generally quoted market values).

Benefit obligation at June 30	\$30,858,125
Fair value of plan assets at June 30	<u>21,701,727</u>
Funded status	<u>\$ (9,156,398)</u>
Prepaid benefit cost recognized in the statement of financial position	<u>\$ 1,743,895</u>

Net pension cost included in the statement of activities for the year ended June 30, 2003 was \$1,627,278, employer contributions were \$2,502,105 and the plan paid benefits of \$575,097.

Assumptions used in determining the net periodic pension cost and the plan's funded status for 2003 are as follows:

Discount rate on projected benefit obligation	5.75%
Rate of increase in compensation levels	4.00%
Expected long-term rate of return on assets	7.00%

The Schools has a savings plan qualified under Section 401(k) of the Internal Revenue Code which covers substantially all of its employees. Employees can elect to contribute a percentage of their gross pay. The Schools currently matches 100% of employee contributions up to 12-1/2%. Savings plan costs included in the statement of activities amounted to approximately \$1,053,819 for the year ended June 30, 2003.

Post-retirement health benefits are provided to only a few people, and are not being offered to any current employees. Hence, these benefits do not have a material effect on the financial statements.

7. TUITION REDUCTION PLAN AND TUITION ASSISTANCE PLAN

The Schools' Board of Managers has designated certain funds for the purpose of funding the future costs of the Schools' Tuition Reduction Plan. Such plan was established to provide tuition reduction benefits to the dependents of all eligible staff members of the Schools for dependents attending college. The Schools' Board of Managers has also designated certain funds for the purpose of funding the future costs of the Schools' Tuition Assistance Plan. This plan was established to provide tuition assistance benefits to the dependents of all eligible staff members for dependents attending any private elementary school or high school. The costs of these plans are to be paid out of the general assets of the Schools and the plans may be discontinued at any time at the discretion of the Board.

8. DEFERRED REVENUE

In 1995, the Schools entered into an agreement with the Commonwealth of Pennsylvania Department of Public Welfare (the "Commonwealth"), whereby the Schools agreed to provide services to an average of no less than 300 Commonwealth students per day. In consideration for these services, the Commonwealth paid \$ 1,618,186 to the Schools to help defray the cost of constructing two dormitories and expanding the educational facilities. These funds were paid through an increment in the per diem rate charged to the Commonwealth during the year ended June 30, 1995. As a result, this revenue has been deferred and is being recognized over a ten-year period, which began in the fiscal year ended June 30, 1996. If during the period July 1, 1995 through June 30, 2005 the Schools fail to enroll an average of approximately 300 students per day, the Schools are obligated, upon notification from the Commonwealth, to repay a portion of the incremental funds, plus interest at the prime rate. The Schools met the enrollment requirements during the period July 1, 1995 through June 30, 1999. The Schools did not meet the enrollment requirements for the years ended June 30, 2003, 2002, 2001 and 2000. The Schools have not been notified by the Commonwealth to repay any funding.

9. COMMITMENTS AND CONTINGENCIES

The nature of the educational industry is such that, from time to time, the Schools may be exposed to various risks of loss or claims related to torts; alleged negligence; acts of discrimination; breach of contract; disagreements arising from the interpretation of laws or regulations; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. Under the terms of federal and state grants and contracts, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the related agreements. Final resolution of the audit questioned costs could lead to reimbursements due to or settlements due from the grantor agencies. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services. The Schools' have a concentration of risk in its charges receivable and future revenues in that most of the revenues earned by the Schools' are funded by federal, state, and local governments.

The Schools' management believes that the resolution of any outstanding claims, litigation or audit disallowances, if any, will not have a material adverse effect on the Schools' financial statements.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Managers of
The Glen Mills Schools:

We have audited the financial statements of The Glen Mills Schools (the "Schools") as of and for the year ended June 30, 2003, and have issued our report thereon dated December 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Schools' Board of Managers, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

December 12, 2003



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Board of Managers of
The Glen Mills Schools:

Compliance

We have audited the compliance of the Glen Mills Schools (the "Schools") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Schools' major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Schools' management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Schools' compliance with those requirements.

In our opinion, the Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the Schools' internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the Schools' internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Glen Mills Schools (the "Schools") as of and for the year ended June 30, 2003 and have issued our report thereon dated December 12, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the Schools' management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Schools' Board of Managers, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

December 12, 2003

THE GLEN MILLS SCHOOLS

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture Passed-Through the Pennsylvania Department of Agriculture: Federally Donated Commodities	10.550	\$ 47,326
U.S. Department of Agriculture Passed-Through the Pennsylvania Department of Education (Nutrition Cluster): School Breakfast Program	10.553	235,926
School Lunch Program	10.555	605,562
U.S. Department of Education Passed-Through the West Chester School District: Title I	84.010	805,756
U.S. Department of Education Passed-Through the Passed-Through Various States and Counties: Special Education (see Note B)	84.027	51,493
U.S. Department of Health and Human Services Passed-Through Montgomery County, Pennsylvania: Social Services Block Grant	93.667	83,347
U.S. Department of Health and Human Services Passed-Through Various States and Counties: Temporary Assistance for Needy Families Program (see Note C)	93.558	328,338
Title IV-B (see Note D)	93.645	42,082
Title IV-E (see Note E)	93.658	<u>3,273,160</u>
TOTAL FEDERAL EXPENDITURES		<u>\$ 5,472,990</u>

THE GLEN MILLS SCHOOLS

NOTES TO SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2003

A. Basis of Presentation

The accompanying Supplemental Schedule of Expenditures of Federal Awards (the "Schedule") has been prepared to present a summary of those activities of The Glen Mills Schools (the "Schools") for the year ended June 30, 2003, which have been financed by the U.S. Government ("Federal Awards"). For purposes of the Schedule, Federal Awards include all subawards from nonfederal organizations made under federally sponsored agreements. The Schools did not receive any financial assistance directly from the federal government. The Schools recognizes expenditures of federal program funds on the accrual basis of accounting.

In certain instances, states and counties listed in the Supplemental Schedule of Expenditures of Federal Awards and the following notes did not respond to our inquiry as to the amount of their federal award pass-through funds. In those instances, awards received from states and counties that had provided federal pass-through funds in previous years were deemed to have provided federal monies in the same proportion for purposes of this schedule.

B. Special Education (CFDA No. 84.027) funds passed-through various states and counties consist of the following:

Minnesota Agencies:	
South Washington School District	\$ 3,235
West Virginia Agencies:	
Department of Education	48,258
Total Special Education	<u>\$ 51,493</u>

C. Temporary Assistance for Needy Families Program (CFDA No. 93.558) funds passed-through various counties consist of the following:

Pennsylvania Counties:	
Bucks	\$ 37,160
Chester	66,550
Clinton	18,014
Delaware	150,800
Montgomery	46,571
Washington	9,243
Total Temporary Assistance for Needy Families Program	<u>\$ 328,338</u>

D. Title IV-B (CFDA No. 93.645) funds passed-through various states, counties and agencies consist of the following:

Pennsylvania Counties:	
Montgomery	\$23,323
Michigan Counties/ Agencies:	
Michigan Department of Social Serivices *	<u>18,759</u>
Total Title IV-B	<u><u>\$42,082</u></u>

E. Title IV-E (CFDA No. 93.658) funds passed-through various states, counties and agencies consist of the following:

California Counties/Agencies:	
Sacramento	\$ 167,769
Michigan Counties/Agencies:	
Michigan Department of Social Services *	28,138
Muskegon Co. FIA	20,449
Minnesota Counties/Agencies:	
Ramsey	86,801
New York Counties/Agencies:	
Edwin Gould Services for Children	27,492
Westchester	21,633
Pennsylvania Counties/Agencies:	
Allegheny	92,240
Beaver	155,622
Berks	66,370
Blair	7,101
Bucks	62,032
Butler	43,825
Cambria	56,292
Chester	66,510
Clinton	2,093
Crawford	14,464
Cumberland	20,065
Dauphin	90,578
Delaware	300,287
Department of Public Welfare *	62,092
Erie	86,485
Fayette	15,385
Federal Prison *	76,796
Franklin	17,773
Lackawanna	45,024
Lancaster	12,367
Lawrence	51,448
Lebanon	10,059
Luzerne	46,033
Lycoming	27,760
Mercer	14,316
Monroe	7,755
Montgomery	276,246
Philadelphia Department of Human Services	860,063
Washington	46,967
Westmoreland	91,111
York	50
Texas Counties/Agencies:	
Tarrant	112,050
Virginia Counties/Agencies:	
City of Alexandria Social Services	16,865
West Virginia Counties/Agencies:	
Bureau of Children and Family	66,754
Total Title IV-E	<u>\$3,273,160</u>

* Agency did not confirm what portion of its funding originated from federal sources. As such, this supplemental schedule includes federal funding from this agency to be consistent with the allocation percentage of federal funding to total funding from prior years.

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THE GLEN MILLS SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2003

Section I.—Summary of the Auditors' Results

1. The independent auditors' report on The Glen Mills Schools' financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting – none reported.
3. Our audit disclosed no matters of noncompliance that are material to the financial statements.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs – none reported.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings that are required to be reported by OMB Circular A-133.
7. The Glen Mills Schools' major programs tested in accordance with OMB Circular A-133 were as follows:
 - U.S. Department of Health and Human Services:
Title IV-E (CFDA No. 93.658)
Temporary Assistance for Needy Families Program (CFDA No. 93.558)
 - U.S. Department of Agriculture – Child Nutrition Cluster:
School Breakfast Program (CFDA No. 10.553)
School Lunch Program (CFDA No. 10.555)
8. The threshold used to distinguish between Type A and Type B programs, as those terms are defined in OMB Circular A-133, was \$300,000.
9. The Glen Mills Schools did qualify as a low risk auditee as that term is defined in OMB Circular A-133.

Section II.—Findings and Questioned Costs Related to the Financial Statements

None.

Section III.—Findings and Questioned Costs Related to Federal Awards

None.

Section IV.—Status of Prior Year Findings

There were no findings in prior year A-133 reports.